VS Industry (VSI MK)

Darkest Before Dawn: Recovery Signs Emerging

	BUY (Maintained)
Share Price	RM0.60
Target Price	RM0.70
Upside	16.7%

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Highlights

- Following a lacklustre 4QFY25, order momentum is set to recover on new model launches across key customers, while the Philippines operation is improving on a higher ramp-up and efficiency.
- While margins may come under pressure from tariff cost-sharing, stronger sales volumes and entrenched customer relationships are underpinning long-term resilience.
- Despite near-term tariff headwinds, trade diversion gains and potential new MNC wins offer longer-term rerating catalysts. Maintain BUY; target price: RM0.70 (from RM0.76).

Analysis

- **On the mend after a lacklustre 4QFY25.** We came away from the recent briefing net positive. Following a softer 4QFY25, we gather that the overall order momentum is improving, underpinned by new model launches and festive ramp up. A US-based customer introduced two models in Aug/Sep 25, while the coffee brewer customer rolled out another in Oct 25, with one more slated for mid-26. Positively, customer X has also already started production for all newly secured models, some ahead of schedule, alongside value-chain enhancements delivering positive contributions. On the other hand, demand from the pool cleaning customer remains subdued amid market uncertainty. Meanwhile from the Philippines, the first model is ramping up following process transfers from Malaysia (Aug 25), with a second model to start in Dec 25 and PCBA capacity by Jan 26. Supported by a five-year tax holiday and operational efficiency gains, we gather that the Philippines operations are poised for steady improvement.
- **Strategic measures enhance resilience.** We understand that management has reached a verbal agreement with a key customer on tariff cost-sharing. While this may dilute margins, it should be offset by stronger sales volumes and deeper customer engagement. This collaborative approach underlines VS' ability to safeguard revenues despite policy risks. Malaysia's relative tariff advantage (19% vs China's 54%) also reinforces its position in global supply chains. Discussions with customer X further reaffirm VS' long-term commitment across both Malaysian and Philippine operations.

Key Financials

Year to 31 Jul (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	4,248	3,788	4,222	5,029	5,439
EBITDA	413	223	320	419	452
Operating profit	287	96	190	289	318
Net profit (rep./act.)	246	37	127	200	222
Net profit (adj.)	210	51	127	200	222
EPS	5.3	1.3	3.2	5.1	5.6
PE	11.3	46.2	18.8	11.8	10.7
P/B	1.0	1.1	1.1	1.0	0.9
EV/EBITDA	5.8	10.7	7.5	5.7	5.3
Dividend yield	3.2	1.3	1.7	2.5	2.8
Net margin	5.8	1.0	3.0	4.0	4.1
Net debt/(cash) to equity	6.7	(3.3)	3.6	6.9	5.1
Interest cover	22.5	11.4	13.6	17.8	19.2
ROE	11.1	1.7	5.8	8.7	9.0
Consensus net profit			179	222	246
UOBKH/Consensus (x)			0.71	0.90	0.90

Source: VS Industry, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Information Technology
Bloomberg ticker:	VSI MK
Shares issued (m):	3,854.5
Market cap (RMm):	2,312.7
Market cap (US$m):	549.6
3-mth avg daily t'over (US$m):	4.1

Price Performance (%)

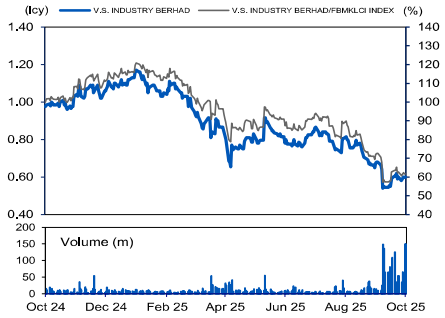
52-week high/low: RM1.18/RM0.520

1mth	3mth	6mth	1yr	YTD
(9.8)	(28.6)	(30.1)	(40.1)	(46.5)

Major Shareholders

	%
Employees Provident Fund	9.8
Beh Hwee Sze	7.8
Beh Hwee Lee	7.4

Price Chart



Source: Bloomberg

Company Description

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- **Near-term headwinds, but signs of easing.** We expect the consumer EMS industry to remain challenged by white goods demand cycles and thin margins. The 19% tariff continues to stretch end-customer spending cycles, weighing on order flows. With around 50% of revenue from US customers, VS remains vulnerable, necessitating another round of earnings revision. That said, 1QFY26 should rebound on festive season restocking and backloaded orders. In the medium term, trade diversion benefits could provide a structural anchor for growth.
- **New foray – Potential rerating driver.** VS continues to attract interest from new MNCs, leveraging Malaysia's entrenched ecosystem. Early-stage discussions are underway, with a medical industry collaboration emerging as the most tangible. PCB assembly has already commenced for this client, but we exclude contributions from forecasts for now. As a sensitivity, securing a RM300m contract at 3% net margin could boost FY26 earnings by around 7%.

Valuation/Recommendation

- **Maintain BUY with a lower target price of RM0.70** (from RM0.76), based on 16x 2026F PE (-0.5SD to the 7-year mean). Our more conservative stance reflects near-term headwinds, but valuations still present attractive upside.

Earnings Revision/Risk

- Cut FY26/27 earnings by 19%/7% to reflect softer loadings and margin compression.

Environmental, Social, Governance (ESG) Updates

Environmental

- VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.

Social

- VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce.
- It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia.

Governance

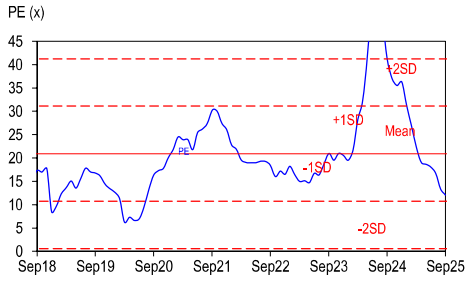
- The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Sales Assumption

(RMm)	FY24	FY25	FY26F	FY27F
Sales	4,248	3,788	4,222	5,029
Key customer	2,007	1,988	2,675	3,084
Customer Z	400	352	250	275
China	30	30	40	73
Indonesia	350	332	349	349
New key customers	1070	400	500	800
Others	338	372	409	450
US$/RM	4.40	4.30	4.40	4.40
Core net margin (%)	4.9%	1.0%	3.9%	4.0%

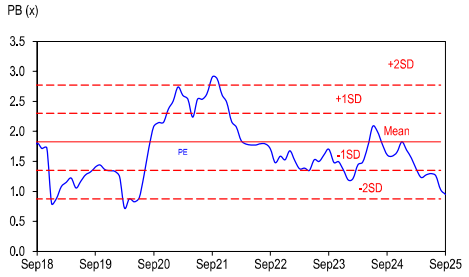
Source: UOB Kay Hian

Seven-Year Forward PE Band



Source: UOB Kay Hian

Seven-Year Forward PBV Band



Source: UOB Kay Hian

Profit & Loss

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Net turnover	3,787.8	4,221.9	5,028.9	5,439.1
EBITDA	222.6	319.9	418.5	451.5
Deprec. & amort.	127.0	129.7	129.8	133.4
EBIT	95.6	190.2	288.7	318.1
Associate contributions	0.0	(0.1)	0.0	0.0
Net interest income/(expense)	(1.1)	2.5	2.5	2.5
Pre-tax profit	(19.5)	(23.5)	(23.5)	(23.5)
Tax	75.0	169.1	267.7	297.1
Minorities	(42.0)	(44.3)	(70.6)	(78.4)
Net profit	3.7	1.9	3.0	3.3
Net profit (adj.)	36.7	126.7	200.1	222.0

Balance Sheet

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Fixed assets	912.5	932.8	953.0	969.6
Other LT assets	293.0	295.5	298.0	300.4
Cash/ST investment	858.7	705.9	622.4	656.5
Other current assets	1,661.3	1,997.0	2,337.6	2,513.3
Total assets	3,725.5	3,931.2	4,211.0	4,439.9
ST debt	454.3	454.3	454.3	454.3
Other current liabilities	701.9	820.4	962.6	1,038.9
LT debt	332.9	332.9	332.9	332.9
Other LT liabilities	85.0	85.0	85.0	85.0
Shareholders' equity	2,153.1	2,242.1	2,382.7	2,538.6
Minority interest	(1.7)	(3.6)	(6.5)	(9.8)
Total liabilities & equity	3,725.5	3,931.2	4,211.0	4,439.9

Cash Flow

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Operating	530.8	138.2	229.5	353.5
Pre-tax profit	75.0	169.2	267.7	297.1
Tax	(42.0)	(44.3)	(70.6)	(78.4)
Deprec. & amort.	127.0	129.7	129.8	133.4
Associates	1.1	(2.5)	(2.5)	(2.5)
Working capital changes	336.9	(137.4)	(118.6)	(19.8)
Other operating cashflows	17.2	8.0	8.0	8.0
Investing	(139.1)	(200.0)	(200.0)	(200.0)
Capex (growth)	(188.3)	(150.0)	(150.0)	(150.0)
Investments	31.4	31.4	31.4	31.4
Others	15.9	(81.4)	(81.4)	(81.4)
Financing	(257.2)	(91.0)	(112.9)	(119.5)
Dividend payments	(77.3)	(37.7)	(59.6)	(66.1)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(160.3)	(34.6)	(15.4)	(14.7)
Others/interest paid	(19.6)	(18.7)	(37.9)	(38.7)
Net cash inflow (outflow)	134.6	(152.8)	(83.4)	34.0
Beginning cash & cash equivalent	755.0	858.7	705.9	622.5
Changes due to forex impact	(30.9)	0.0	0.0	0.0
Ending cash & cash equivalent	858.7	705.9	622.5	656.4

Key Metrics

Year to 31 Jul (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	5.9	7.6	8.3	8.3
Pre-tax margin	2.0	4.0	5.3	5.5
Net margin	1.0	3.0	4.0	4.1
ROA	0.9	3.3	4.9	5.1
ROE	1.7	5.8	8.7	9.0
Growth				
Turnover	(10.8)	11.5	19.1	8.2
EBITDA	(46.1)	43.7	30.8	7.9
Pre-tax profit	(75.8)	125.7	58.3	11.0
Net profit	(85.1)	245.2	58.0	10.9
Net profit (adj.)	(75.5)	147.0	58.0	10.9
EPS	(75.5)	147.0	58.0	10.9
Leverage				
Debt to total capital	26.8	26.0	24.9	23.7
Debt to equity	36.6	35.1	33.0	31.0
Net debt/(cash) to equity	(3.3)	3.6	6.9	5.1
Interest cover	11.4	13.6	17.8	19.2

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